

The different types of fraud that were committed by enron
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Enron committed all types of fraud, from mail fraud and shareholder fraud to security, wire fraud and money laundering. While analyzing these frauds it will be seen who committed the fraud, why did they commit it, how did they commit it, the penalty and punishment given to those who were apart of it, the key players, the penalty and punishment given to those who are innocent bystanders, the penalty given to Enron as a whole, how these types of frauds can be prevented in the future and how Enron could of prevented these frauds from occurring, and how to bring back the trust that was lost due to fraud in the markets.

When it comes to wire fraud, there are a couple of main players from Enron. The key players from Enron who committed wire fraud are Timothy Belden, Andrew Fastow, Jeffrey Richter, Michael Kopper, Jeffrey Skilling, and most of all Enron trader's in general. By knowing that wire fraud is " anyone who uses interstate wire communication facilities in carrying out a scheme to defraud."(Lectric Law Library), and that shareholder fraud is" when the employees of a corporation deliberately deceive the company's shareholders by misrepresenting information "(Shareholder fraud info center) and security fraud " is when on party deliberately misinforms another party during the trading of stocks, bonds, an other securities. "(Securities fraud info center), it is able to be shown how Timothy Belden, Andrew Fastow, Jeffrey Richter, Michael Kopper, and Jeffrey Skilling committed these types of fraud in some of the following ways.

Timothy Belden, the head of Enron's energy-trading operation, committed wire fraud by playing his part in the manipulation of California's energy market that would cause the drive up of power prices. A way the he

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contributed to this fraud was by buying California's power at cheap, capped prices. They would then route them outside of California and then sell it back into California at a very highly inflated price. These types of deals that were committed by Timothy Belden were called " Ricochet" deals because as stated above they would ricochet California's energy and every time it would come back it would be more expensive. That is how Belden would gain profit for Enron. By committing this fraud Belden was able to gain Enron's profit that were worth a small amount of millions in one year to multiplying it to hundreds of millions in with two years.

The only way the ricochet deal broke up is when the Federal Energy Regulatory Commission implemented regional price caps. Now when it comes to Andrew Fastow, Enron's former chief financial officer, Michael Kopper, and Enron Executive, and Jeffrey Skilling, they were convicted or are charged with wire fraud, and money laundering, by making partnerships that were never recorded in the books correctly, by doing this the wire fraud he committed was used to hide about one million dollars in debt from shareholders and federal regulators, this is were the shareholder fraud comes in and was committed. Michael Kopper and Andrew Fastow committed this fraud by working together. There were many partnerships committed by these people like the RADR but the following paragraphs will only explain how two of the many partnerships, that were used to commit fraud, were sought out. Here are two example partnerships, which show how Fastow, Kopper, and Skilling worked together to commit this fraud.

One of the first partnerships that they made was called LJM. LJM was a project that was started to fix a so called problem Enron had of not being
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able to sell, or put in paper an Internet start-up company that would make Enron look good. Because of not being able to do so Enron started a risky partnership with a company in the islands called LJM. Enron funded LJM with its own stock in order to fake the books.

The second partnership was called Chewco. The main story with Chewco was that Fastow wanted to run Chewco but he couldn't because of a conflict of interest. So what Fastow did was put Kopper in control of Chewco. Here is where the fraud comes in, in order to cover up the connection between Chewco and Enron, the investments done by Kopper to Chewco was done under a partner's name. When Enron decided to buy Chewco, Fastow made Kopper drive up the price of it in order make profits for himself and Kopper, and any other money Kopper received from the selling of Chewco to Enron he shared with Fastow, this is how they committed their money laundering and wire fraud.

The next key player who committed fraud was Jeffrey Richter, the former head of Enron's Short-term California energy trading desk. He also committed wire fraud. Richter committed wire fraud specifically in one way. He was the one in charge of supervising the department of Enron that was responsible for the trading of California's short-term power market before the company filed for bankruptcy.

There are two schemes that were committed by Enron traders. The two schemes that were committed by Enron were called " Load Shift" and " Get shorty". In " Load Shift" Enron traders filed a false power-delivery schedules aimed at boosting prices by creating the appearance of " congestion" on

California's high-voltage transmission lines. Enron would profit from the schedules by offering to drop or revise deliveries. By doing this Enron was entitled for compensation from the state when the grid operators thought congestion threatened to overwhelm the transmission system. When it comes to "Get Shorty", "Get Shorty" was a scheme that Enron traders would make and sell backup power to California, they would then receive payment and then canceled the schedules and covered their commitments by buying power at a lower price in a near by market.

A very big question that needs to be answered when analyzing fraud is why are frauds committed? Why did Timothy Belden commit wire fraud? Belden's excuse for committing wire fraud is "I did it because I was trying to maximize profit for Enron." (NYSSPCA). He said he was following Enron's instructions. In the upcoming paragraphs, after the completion of why fraud is committed, it will be stated, how to prevent this fraud from occurring because of the saying "I was following the companies orders".

Fastow, Kopper, and Skilling committed these wire frauds and partnerships for three main reasons. The first one was in order to cover up debt that Enron truly had accumulated, which was done with the LJM partnership. This was done to try to save Enron's appearance. The second reason why they committed the fraud was to hide a conflict of interest, and to gain money for themselves, not even to gain profit for Enron, which was done by the Chewco partnership. This reason just stated is mainly called greed. But the main reason why Fastow committed these frauds was in order to manipulate Enron's balance sheet, and come up with fake earnings, to make Enron look good.

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When it comes to Enron's traders, Enron traders would of committed these frauds, and schemes like " Get Shorty" and " Load Shift" in order to profit the company. They say it was just for that, but every one knows that if the company profits shareholders and Enron traders themselves would profit too. Fraud is committed most of the times not only because of how a company is managed, or in order to increase or a save a company, but it is also committed because of plain old greed that people carry with them.

Remember with fraud comes penalties eventually. For all of the key players of Enron, which were talked about above, each of them paid a penalty and was punished. Here are a few penalties and punishment that are brought on by fraud. First of all, they all face years in prison, fines, and the paying millions in restitutions, and that is only because they all had decided to help out in the investigation. If not there punishment could have been worse.

These are the penalties brought to the people who commit fraud. Fraud does not only affect the people who commit it but it also affects innocent hardworking people. Because of the people who committed the Enron fraud many innocent working people lost everything, from their jobs, since Enron went bankrupt, their retirement plan (401k), and the loss of thousands of dollars for those people who honestly had invested their money in Enron. Fraud affects many people not just the ones involved. Fraud even affects traders who are not traders or shareholders of Enron, because fraud even affects the markets. Because when fraud is committed markets all over the place are affected because of the lost of trust. Lets not forget that the whole unraveling process, in which the actual fraud starts to be investigated in can

be too much for some people that they commit suicide like Clifford Baxter, the vice chairman of Enron Corp.

The prevention of fraud is a very big issue and companies and organizations need to take it very seriously. There are big things and little things that can be done, from “ Sarbanes-Oxley Act” to plainly the way management puts its priority to it’s employees, to try to prevent fraud from occurring in a company. When it come to “ Sarbanes-Oxely Act, which is an act that enables employees at all levels inside a corporations to raise concerns about fraud, knowing that they have legal remedies if they suffer retaliation because of the concerns they have raised.”(The Motley Fool) This act not only helps the prevention of fraud but it also helps in the trying to restore the trust in the markets. The Sarbanes-Oxley act was done so that, if any employee knows of any fraud that is trying to take place or any fraud that is taking place, they can know and put their mind at ease when reporting it. They can be put at ease because they will know that they will not, and cannot get fired, or have any retaliation towards them, because that will be illegal. This act was made for the protection of the employees and in order to encourage whistle-blowing. “ Whistle-blowing is an employee who publicly reports illegal activities going on inside his or her company.”(Investors World) This act was made because it has been seen that most people do not report fraud because they are scared of getting fired.

Another way of preventing future Enron’s is to fix how corporations get managed. Business fraud is caused by how corporations are managed. The reason this is said is because fraud occurs mainly because of incentives given to executives. Meaning for examples that executives get given
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incentives along the lines of, if a certain amount of profit is reached a bonus in some way will be issued or some stocks will be able to be bought. Because of these incentives executives get the urge to misreport performance in hopes of saving their companies, and the ability to make the company or organization look good with false ratings in the books. A company can look on the fraud classification system to find ways to help their companies give appropriate incentives. The fraud classification system helps protect shareholders from fraud and lets the board of directors restructure firms so that executives have the right performance incentives. Some incentives given in companies are the following two types of rewards that can be offered; the first one is rewards that benefit shareholders, and the second reward are those that benefit select groups involved within the company.

A third thing that companies need to be aware of are what situations are prone to having a higher risk of fraud. Here are some of those situations. For one, the greater the focus on insider benefits to higher-level management, the higher the risk of fraud. Another one is the greater the influences of senior management relative to external directors, the higher the risk of fraud. The third is the greater the commitment to stock options and benefits that encourage a balance between the influence of management and the board of directors, the lower the risk of fraud. In order to fix these high risk frauds a method that can be used is to have auditors review company structures and books, because these auditors are encouraged to consult with, whatever company they are doing business with, and tell them what they see as upcoming or future problems. Outside auditors are able to see problems coming because of the incentives structures that are in place in

that company. If we can accomplish these few things we will be able to get closer to being able to get abolish fraud.

When fraud is committed and it is caught and brought to the surface the investigation brings about more issues. Like in Enron's example there fraud brought about the investigation of Andrew Anderson's Accounting firm, because they contributed to helping Enron in the accounting books, by destroying some of Enron paper work which is illegal to do. It is best to try to prevent fraud and catch fraud before it occurs. This is why the above methods should be used, because by being able to persuade whistleblowers to blow the whistle on a company that can very well be attempting to commit or are committing fraud when the whistle gets blown. If a whistle blower were to blow, it can very well help stop fraud in another company, which in the long run if they were caught early enough, can save money for the innocent people that get involved without even knowing that they are involved in the fraud of the company.

If whistle-blowing occurs before the fraud actually occurs and causes damage to the company the better, because that gives a better chance that people do not lose there jobs, or retirement plans etc...This is why it is good to have the Sarbones-Oxley Act, because it will encourage whistle-blowing. In Enron's case the whistleblower was Sharon Watkins. She was the one who raised the issue of the fraud being committed in Enron. Back in 2001 she raised a caution flag about Enron. But for Enron's case it was good that the whistle was blown but it was still bad because it was blown to late which is why Enron still went into bankruptcy, and innocent people still ended up losing their jobs and their retirement plans. So If all the above prevention <https://assignbuster.com/the-different-types-of-fraud-that-were-committed-by-enron-essay-sample/>

methods are taken, the better the chances are of no fraud occurring, and the better the chances are of catching the fraud earlier without having to much damage to fix. Not only the above but by catching it early and putting into play all the preventions the markets will begin to gain its trust back, because they know that the likelihood of fraud occurring is getting smaller.

Enron committed many frauds that contributed to its collapse from minimal mail fraud to heavy-duty wire fraud, shareholder fraud, and security fraud. With Enron having had committed these fraud it ruined many peoples lives. It is very important to notice that while fraud can get you ahead for a while it will eventually catch up with you. And it will not only, hit the economy hard but it will affect yourself the company and the lives of innocent individuals. From an analytical view point, which is the view taken here, Enron committed many frauds, many people were involved, and the guilty parties involved where punished or are in the process of being punished. Analytically it was able to be seen what the different reasons why fraud is committed and what to do to prevent fraud in the future, which in the long run would help innocent people, and it will help the markets with the issue of trust. The two main reasons how to prevent fraud is with the government interference, like with Sarbanes-Oxley Act, and just plainly having companies give good incentives in order to try to avoid the feeling or the urge to commit fraud.

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